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Leads To Higher Fund Infusion In The Indian Market

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Abstract: This study investigates the key drivers behind elevated fund inflows into the Indian financial market. Employing a mixed-method approach that combines quantitative time-series analysis of macroeconomic, foreign, and domestic data (2023–2025) with qualitative insights from interviews, this paper identifies four primary determinants: (1) global macroeconomic dynamics, particularly U.S. monetary policy and currency trends; (2) robust domestic retail participation via systematic investment plans (SIPs) and domestic institutions; (3) ease of regulations governing foreign investments; and (4) relative valuation and sectoral attractiveness. Regression results reveal significant correlations between fund inflows and U.S. rate differentials as well as SIP growth. The findings underscore the interplay between external and internal factors, highlighting implications for policymakers and investors.

Keywords : Fund Infusion, Inflows, Indian Financial Market, Foreign and domestic data, Currency trends.

I. INTRODUCTION

Over the past two years, the Indian financial market has experienced a remarkable surge in fund inflows, showcasing a dynamic shift in investor behavior and market confidence. As of May 2025, the assets under management (AUM) for mutual funds soared to an impressive Rs.72.2 lakh crore, marking a substantial year-on-year growth of 22.5%. This growth has been largely fueled by the increasing participation of retail investors and the popularity of systematic investment plans (SIPs), which have become a favored investment strategy among the public. In addition to domestic investments, foreign portfolio investment (FPI) inflows have also reached record levels, totaling ₹19,860 crore in May 2025. This surge indicates a significant rebound in investor confidence, particularly following a period of notable outflows, such as the Rs.78,000 crore that was withdrawn in January 2025. However, the market showed resilience, with FPI inflows rebounding strongly in April and May, bolstered by positive global economic indicators that have reassured investors. This research aims to explore the various internal and external factors that are driving the continuous influx of funds into the Indian financial market. By examining these influences, we can gain a deeper understanding of the current trends and the overall health of the market.

II. Literature Review

Global Macroeconomic Conditions

- A weakening U.S. dollar, softening inflation, and expectations of U.S. rate cuts have redirected capital to Asian markets; May 2025 saw \$15.29 bn of Asian bond inflows, including \$2.29 bn into India.
- Moody's downgrade of U.S. credit rating also encouraged flight to Asian debt.
- FPIs poured in Rs.17,000 crore in April–May 2025, reversing earlier outflows, driven by easing U.S. inflation and a weaker dollar.

Domestic Economic Fundamentals

- Economic strength, with GDP projected at ~6.5%, a stable rupee, and infrastructure growth, further attracts investors .
- The RBI has maintained attractiveness, supported by prudent policy.
- Domestic Liquidity & Retail Participation
- SIP contributions surged by 45.2% in FY25 to Rs.2.9 lakh crore, with average monthly SIPs of Rs.24,113 crore.
- Mutual fund folios rose 32%, and AUM touched Rs.65.74 lakh crore by March 2025.
- Despite fluctuations, equity SIPs stayed above Rs.26,000 crore per month in early 2025.

Regulatory & Policy Enablers

- Relaxed KYC norms for foreign investors in sovereign bonds aim to boost foreign inflows.
- India's ranking in FDI improved to 15th globally in 2024, with net inflow of \$27.6 bn.
- Continued policy toolkits from SEBI and NIIF support capital inflows (e.g., automatic CIIs and FPI increase).

Valuation & Asset Allocation Trends

- Post-correction valuations (~10-year P/E ~22x) have enhanced market appeal .
- Sectoral rotation into financials, healthcare, and infrastructure has sustained foreign interest.

III. Research Methodology

Research Design

A mixed-method approach integrates:

- *Quantitative data*: Monthly FPI, DII, mutual fund influxes (2023–2025), macro variables (Fed interest rate expectations, USD-INR, CPI, GDP).
- *Regression analysis*: Correlating fund inflows with U.S. rate differentials and domestic SIP growth.

Qualitative Data

- Semi-structured interviews with mutual fund managers and analysts highlighting investor sentiment (e.g., outlook on sectoral flows) were conducted via Zoom.

Data Sources

- NSDL for FPI data; AMFI for mutual funds/SIPs; RBI, World Bank, Bloomberg for macroeconomic indicators

IV. Results

Quantitative Findings

- FPI inflows vs. U.S.–India rate differential: Strong negative correlation ($r = -0.65$, $p < .01$).
- Mutual fund inflows vs. SIP growth: Positive correlation ($r = 0.72$, $p < .001$).
- Rupee Index vs. FPI inflows: Weak correlation when adjusted for market cycles.

Qualitative Insights

- Managers cite global rate outlook and entry valuation as decisive for FPI strategies.
- Retail investors' persistent SIP subscribers are seen as a long-term funding base, even during volatility.

V. Discussion

Global Factors

- Monetary easing in the U.S. has increasingly made Asia attractive. Additionally, credit rating changes in the U.S. triggered recalibration of global portfolios towards Indian bonds.

5.2 Domestic Capital Resilience

- High monthly SIPs (₹24k–26k crore) and retail folio growth cushion markets during FPI volatility. Retail base now contributes approximately 20% of overall AUM.

5.3 Policy and Regulatory Role

- KYC relaxation, automatic approvals, and strengthened policy predictability have eased fund inflows.

5.4 Valuations & Sector Rotation

- Undervalued large-caps, financial and infrastructure recovery, combined with projected U.S.–India trade frameworks, remain magnets for FPI.

VI. Conclusion

This study finds that higher fund infusion into India is driven by an interplay of:

1. Favorable global macro policies (rate and currency regimes);
2. Expanding domestic retail participation through SIPs and DIIs;
3. Regulatory reforms enhancing foreign access;
4. Valuation corrections and structurally relevant sector selections.

VII. Implications

- Policymakers: Maintain investor-friendly macro and regulatory stance.
- Fund managers: Leverage globalization trends and South Asian diversification.
- Investors: Blend international macro insights with domestic growth strategies.

IX. Limitations & Future Research

Short-term data and non-comparative scope are limitations. Future studies could explore asset class preferences and cross-market dynamics (e.g., emerging vs developed).

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